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Global Views

Weekly commentary on economic and financial market developments

December 20, 2013

Happy Holidays!

Best wishes for the holiday season from all of us.

To our clients & readers — we thank you for your ongoing interest in Scotiabank publications.

The next issue of Global Views will be on Friday, January 3, 2014.

Global Views is available on: www.scotiabank.com, Bloomberg at SCOT and Reuters at SM1C

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Six Weeks Until The Next Taper?

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A7.**

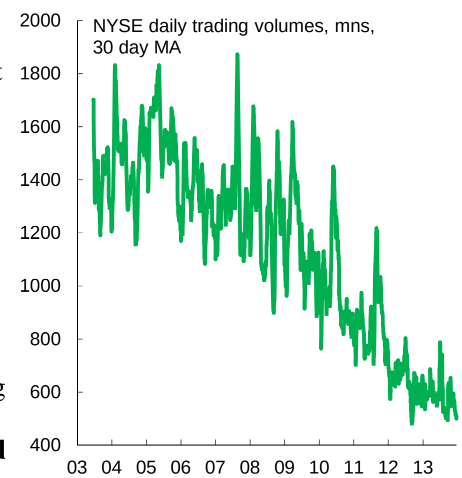
United States — More Positive Readings On The Private Economy To Feed More Tapering

A troika of data releases will land at the start of the week and they will begin to inform the debate over the Federal Reserve's next policy moves at the January 29th FOMC. **Each of the three main releases due out next week is expected to be constructive to markets.** Total **consumer spending** is expected to follow the already released retail sales print higher. Much of the November gain seems to have been in volume terms and not just higher prices and therefore it flows through to economic growth. November consumer spending therefore is coming in stronger than the National Retail Federation's guidance on how Thanksgiving weekend sales performed. Tuesday's **durable goods orders** should maintain the cheery momentum into Christmas with a solid gain fed by a rise in plane orders as indicated by Boeing's 110 orders in November which was up from 79 the prior month. The auto sector also probably added to momentum in total orders. The greater uncertainty lies in terms of core capital goods orders ex-defence and ex-air as a proxy for shorter-term business investment. The latter has fallen in three of the past four months, but the improvement in underlying manufacturing surveys and industrial production may be creating a more constructive backdrop for equipment spending. Finally, consensus expects **new home sales** to consolidate the prior month's large 25% m/m gain and hold flat, but after such a massive single-month gain we feel that the risk is to the downside.

Will the releases matter to the Fed debate? If they come in positively, they reinforce further tapering next month. But if they don't, will it knock the Fed off course? I doubt it. By stating that "…the committee will likely reduce the pace of asset purchases in further measured steps at future meetings" as long as its forecasts remain on track, I think the Fed is saying they intend to taper again on January 29th. The Fed is unlikely to have enough further and material forecast information by then to lead them to hold off on additional tapering and so a fairly high bar has been set against any expectation that they could deviate from the path toward further near-term tapering.

US markets will be open on December 26th in contrast to several others, but volumes and bodies will be scarce. As the accompanying chart demonstrates, daily trading volumes on the NYSE have been plummeting throughout the past decade. **Recent NYSE trading volumes have been plumbing depths not previously witnessed in figures that commenced in 2003. As the Federal Reserve reduces its flow of new stimulus, we are mindful of the fact that falling trading volumes and market liquidity present the scope for elevated volatility into 2014.**

Thin Volumes = Weak Conviction?



Source: Bloomberg, Scotiabank Economics.

Asia-Pacific — Economics Junkies Will Have Japan To Watch

Japan will be the only major source of global data risk over the back half of the week. December 25th is not a holiday in Japan, but Monday is in honour of the emperor's birthday. BoJ Governor Kuroda starts things off with a speech on Christmas Eve, and the minutes to the BoJ's last meeting on December 20th will be released on Christmas Day itself. Break out the 'nog and get set for some happy reading? Thanks, but we'll pass. The following day, however, brings forward key releases of relevance to the ongoing debate on the impact of Abenomics.

Key here is that the Japanese CPI inflation figures continue to showcase evidence of a relative price shock driven by imported food and energy price spikes significantly related to yen depreciation. Most CPI components not related to food and energy either continue to fall or remain soft as shown in the accompanying chart. The big gainers are prices for fresh food, utilities due to soaring electricity prices in the wake of the Tōhoku disaster coupled with rising imported energy costs, and the energy impact on rising transportation prices.

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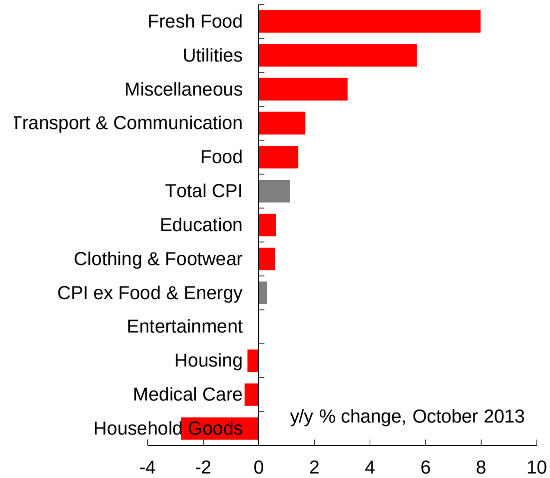
CPI ex-food-and-energy remains largely flat. We maintain the year-long view that Abenomics would impose a relative price shock that would force wage- and credit-constrained consumers to spend more upon what they have to (food and energy) by restraining spending elsewhere in the economy in disinflationary fashion on the second- and third-round effects. That's a very different inflation dynamic than would be the effects of a generalized increase in economy-wide prices in that it counsels future effects that will be bearish for the outlook for Japanese consumers. At the same time, the other main supposed benefit of Abenomics is an improvement in the trade account by stimulating export growth through yen depreciation, yet this is only evident via a price effect as export volumes remain weak. The country also releases housing starts, household spending, industrial production, and retail sales. China's industrial profits, and trade figures for the Philippines and Thailand round out the regional releases. On the political front, questions remain over whether Thailand's Democratic Party will run in the elections scheduled for February 2—or stay away in order to maintain its focus on the street protests centered on reforming the election process. A decision will need to be reached by January 28.

Japan's Import Price Shock Is Distorting CPI



Source: MIAC, Scotiabank Economics.

Canada — Is The Economy Maintaining Momentum In Q4?

The only domestic source of risk next week will be the first glimpse at how the economy is growing in Q4. October GDP lands on Monday. **We expect another solid gain.** We know that hours worked in the broad economy climbed by 0.4% m/m which would indicate that the economy grew unless productivity fell, given that GDP equals hours worked times output per hour worked. Other readings were somewhat more mixed but generally favourable. For instance, October's housing markets were not particularly robust. Home resales fell 3.2% m/m in seasonally adjusted terms and, even though most of a resale transaction is a paper swap with no value-added activity from a GDP standpoint, ancillary services like lawyers, real estate agents and banks probably witnessed cooler activity in what may be the beginning of a cooling off period in home sales after the probably temporary recovery in the Spring and Summer following the prior year's correction. Housing starts rose 1.2% but entirely in lower value-added multis and rural markets as higher value-added single-detached units fell such that real estate sectors may not have added to growth in any meaningful way. Bright spots included a large 1% m/m gain in manufacturing shipment volumes, and a 1.2% m/m gain in wholesale volumes. A small rise in retail sales volumes will also assist the GDP print. An offset is what a wider trade deficit during the month did to related sectors.

In a grander sense, the Q4 challenge will be to repeat 2.7% annualized quarterly growth in Q3. That was the strongest quarterly growth since 2011Q3. Inventories accounted for 1.2 percentage points of the headline gain, and so did consumer spending. The rest of the economy put in a fairly lacklustre performance: net exports were a drag as export volumes slipped and import volumes climbed; government spending added 0.2% to GDP growth; and business investment added 0.3%. Canadian markets will be shut for both Christmas Day and the following "Boxing Day."

Europe — Can You Say 'Merry Christmas' In 24 Languages?

Feliz Navidad, Joyeux Nöel, Frohe Weihnachten, Buon Natale, Feliz Natal, С Рождеством, Merry Christmas, and so forth in your favourite one or more of the twenty-four official languages of the European Union. **The European week will be spent wishing warm tidings, as there will be precious little by way of domestic developments.** The only release of note — and it usually has little to no effect on the European market tone — will be French consumer spending on Wednesday. After three straight monthly declines and seven dips in the ten months to date, the odds are rather remote that a trend break-out will suddenly emerge.

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Canadian Housing Market Year-End Review & Outlook

- **Canada's housing market is set to cool in 2014 after a better-than-expected performance this year.**

Canada's housing market outperformed expectations in 2013, with national home resales largely on par with 2012. Average prices are on track for roughly a 5% annual gain, skewed higher by the strong sales rebound in several high-priced markets, including Vancouver and Calgary. The robustness in housing activity has been broadly based regionally.

New home construction has slowed but remains elevated. Housing starts will likely total around 187,000 this year, down from 215,000 in 2012 but slightly above underlying demographic requirements. The slowdown is primarily in multi-unit construction, as builders respond to weaker new condominium sales and rising inventories. Renovation spending has increased 2½% (inflation-adjusted) year to date, a slight pickup from the average of the prior two years.

Looking to 2014, we expect a **moderately lower level of resale transactions**. Steady job and income gains combined with strong population growth in the key first-time homebuyer demographic (i.e. aged 25-34) will continue to underpin housing demand. However, 2013 also was marked by the return of buyers that deferred purchases following the prior year's tightening in mortgage regulations and lending guidelines, as well as those trying to complete purchases ahead of anticipated mortgage rate increases or expiring pre-approvals. Housing affordability, though still well within historical norms, has peaked as the upward drift in mortgage rates compounds record high prices.

Overall market conditions are expected to remain fairly well balanced, with sellers responsive to underlying market conditions. We expect **national average home prices will be relatively flat** next year. Downside price risk is greater in the more amply supplied high-rise segment than for single-family homes.

Facing waning investor interest in new condominium launches, higher inventories and softer pricing, **builders will likely further gear down the pace of new home construction**. We expect starts to total around 175,000 in 2014, with the slowdown concentrated in the multi-unit sector. Even so, a historically high number of units under construction will maintain a high level of activity and employment in the sector.

A softer sales and pricing environment and generally cautious consumer could dampen renovation activity, particularly for major remodelling projects. Nonetheless, the combination of high homeownership rates and an expanding housing stock should support **continued moderate growth in renovation spending** of about 2% after inflation. Household outlays on renovations are typically less volatile than home sales and starts.

A widening cost premium between owning over renting should underpin **continued strong rental demand** in 2014. Demographic trends (e.g. high immigration levels and population growth in the 20-29 age group) also are favourable. Rental markets remain tight in most major centres, though vacancy rates could edge up next year alongside an increase in supply from recently completed investor-owned units.

From a regional perspective, **Alberta will likely outperform national housing markets** in 2014. Relatively firmer employment and income gains and strong population growth are expected to underpin modestly higher home sales and steady new construction, while tighter supply conditions lift prices.

The risks to the Canadian housing market appear fairly balanced. Cautious business hiring, muted wage growth, high household debt levels and affordability pressures could lead to a sharper slowdown in housing activity in 2014. At the same time, gradually improving global growth, still attractive borrowing costs and population growth in key demographic segments are supportive of housing demand.

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Scotiabank's Commodity Price Index — Year-End Review & Outlook For 2014

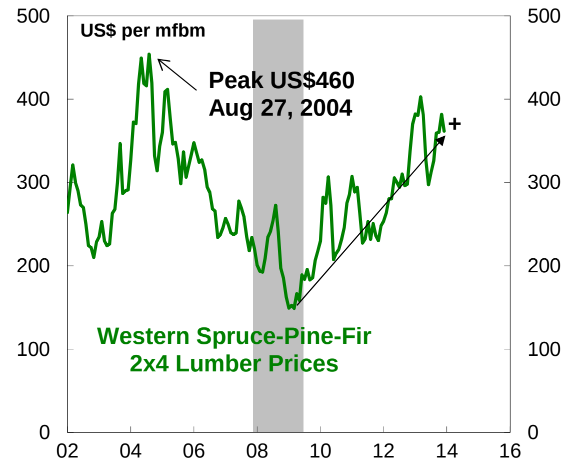
- **Top 'Picks' for investors in 2014 — zinc, lumber & condensates-NGLs.**
- **Oil pipelines are vital for a prosperous Canadian economy; the NEB recommends approval of the Northern Gateway Pipeline, key for 'Oil Market Access' to Asia/Pacific.**

Scotiabank's Commodity Price Index declined by a sharp -5.8% m/m in November and is currently -10.4% below a year earlier. While commodity prices lost ground in 2013 — partly due to disappointingly slow global growth (2.9% in 2013, down from 3.2% in 2012) — **signs point to a bottoming in 2014 and a return of the 'Bull-Run' in the second half of the decade. Zinc is a Top 'Pick' for early investors. Lumber should post another solid advance in 2014, with a 19% yr/yr gain expected in Western Spruce-Pine-Fir 2x4 prices.**

Forest Products posted the strongest advance of any commodity sector in 2013 (+2.2% m/m in November and +5.6% yr/yr). **Western Spruce-Pine-Fir 2x4 lumber prices in the B.C. Interior — the bellwether for North America — averaged US$356 per mfbm in 2013 — an 18.9% gain over the US$299 of 2012 — the fourth-best performing commodity within the Scotiabank Commodity Price Index.** While lumber prices edged down seasonally from US$381 in November to US$355 in mid-December, prices will bounce back in early 2014, as buyers restock inventories ahead of the spring building season. U.S. housing starts jumped to 1.091 million units annualized in November (the highest since February 2008) and should climb to 1.15-1.20 million in 2014, lifting lumber prices to US$390 next year (about US$425 late-year).

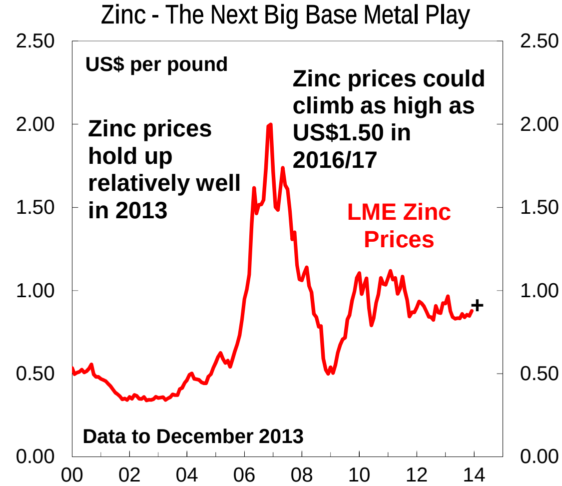
While China's price-sensitive buying may slow next year, the demand on North American lumber mill capacity (both idled and operating) should increase from 77% to 80% in 2014 — giving mills considerable pricing leverage. Current lumber prices of US$372 yield an average profit margin for B.C. Interior mills of 22% over full 'breakeven costs' (including depreciation).

Lumber Strength Will Continue in 2014



+ December 20, 2013: US$372.
Shaded area denotes U.S. recession period.
U.S. Housing Starts: 2012 783,000; 2013e 925,000; 2014F 1.15 - 1.20 million units.

Zinc - The Next Big Base Metal Play



+ LME official cash settlement price
Dec. 20, 2013: US$0.92.

LME zinc prices at US$0.92 per pound in mid-December are only slightly below year-earlier levels of US$0.93, with zinc holding up better than other base metals. A sizeable price arbitrage of more than US$200 per tonne has opened up between the Shanghai Futures Exchange and the LME, encouraging a 19% jump in Chinese imports through October 2013.

This reflects a world 'deficit' in refined zinc (consumption exceeds supply), though the 'concentrate' market is in 'surplus' — a surprising shift which occurred in 2012, as Chinese producers shut down smelters in view of low treatment charges on domestic and imported 'concentrates' and poor profitability. While China's smelter output has rebounded moderately in 2013, smelter capacity utilization remains fairly low at 74% compared with 91% in the rest of the world. **The global metal market balance is expected to remain in 'deficit' over the**

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next 3-5 years, with implied stocks dwindling from a high 100 days of consumption in 2012 to 59 by 2015, lifting zinc prices to US$0.98 in 2014 and US$1.30-1.40 in 2015. While smelter treatment charges (TCs) will likely rise in 2013-15, higher metal prices should be an offset for 'concentrate' producers. The mid-decade increase in world output will be limited by unusually high mine depletion (Lisheen, Century). The changes announced by the LME to its warehousing system to lessen queues have had little impact on U.S. zinc premiums to date, which remain at 9-9.5 U.S. cents per pound.

Joint Review Panel Recommends Northern Gateway Pipeline

In its December 19 report, the Joint Review Panel of the NEB and the Canadian Environmental Assessment Agency recommended that the federal government approve the Northern Gateway Pipeline Project, subject to 209 terms and conditions (such as a Marine Mammal Protection Plan & an emergency response training program in the event of oil spills). The Canadian Cabinet has 180 days to make a final decision (likely by July 2014).

The Pipeline would connect Bruderheim (near Edmonton) with Kitimat, B.C., providing 525,000 b/d of market access for Western Canada's oil to the valuable markets of Asia/Pacific. While probably not in place until late 2018, the pipeline would help to narrow recently wide 'light' as well as 'heavy oil' discounts off WTI oil, which have been so costly to the Canadian economy.

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Central America And The Caribbean Economic Outlook

Improving global economic & financial market context

The global economic recovery is setting a positive tone for the 2014-15 Central American and Caribbean economic outlook. The improving economic performance in the United States — the most relevant economy for the region — combined with persistent high growth in China (yet at a somewhat milder rate of expansion), a building momentum in the United Kingdom and a return to growth in the euro zone, are all factors that bode well for the region's growth prospects. Nevertheless, the prospect of interest rate normalization in advanced economies may instill a higher dose of financial market volatility in most countries in the developing Americas in the first half of the new year.

Uneven regional economic growth dynamics

The region remains highly dependent on the US economy through tourism, remittances and investment flows. Improving US economic conditions are evident in auto and housing sector activity and labour markets. We anticipate that the US real GDP will expand by 2.8% on average in the coming two years, following an estimated 1.6% expansion in 2013. After the 2008-09 global financial shock, tourism activity and investment in large-scale projects decelerated significantly in the Caribbean and have yet to recover. However, China is playing an increasingly important role in the new investment environment.

Real output in Central America and the Caribbean will likely expand by 2.2% in 2013; we anticipate that the growth rate will subsequently accelerate to 3.2% y/y on average in the 2014-15 period. Panama, Costa Rica and the Dominican Republic (DR) will lead the regional growth charts whereas Barbados and the highly leveraged Jamaican economy will be the underperformers (but will return to positive rates of growth). Elsewhere in the region, low and modest growth continues to be the norm. The English-speaking Caribbean economies will underperform Central and Latin America as a whole, with output expanding by 2.7% in 2014-15.

Improved price stability, yet sensitive to energy prices

Regional inflation will remain at around a 5.0% annual average in the coming two years, a significant decline from the 6.5% average rate posted in the past decade. Commodity price fluctuations will impact the inflation outlook in the region as most countries are net energy importers. Additionally, the region’s vulnerability to natural disasters could also impair inflation control strategies and erode fiscal sustainability in some countries.

Inflation targeting and more flexible currency arrangements seem to be the policy of choice for Costa Rica and the DR. Meanwhile, well-entrenched dollarization structures remain in place in Panama, El Salvador and, to a lesser degree, Trinidad and Tobago (T&T). The exchange rate anchor provided by the systemic dollarization in the Bahamas, Barbados, Panama and El Salvador is aiding inflation containment goals in these economies, though they remain sensitive to energy price movements.

Persistent external financial vulnerabilities

A process of intra-regional credit differentiation is taking place. Large current account shortfalls, elevated public debt, high reliance on tourism and commodities, fixed currency regimes and low monetary policy effectiveness will remain key risk factors in the region. Jamaica maintains the lowest sovereign credit rating in the region followed by Barbados and El Salvador (both with a ‘negative’ outlook); T&T and Panama remain as the top-rated countries.

Multilateral sources of funding led by the International Monetary Fund (IMF) will play a key role in supporting programs to achieve debt sustainability. Despite a lower level of indebtedness when compared with advanced economies, the region is not immune to financial market stress. Roll-over risk in external government debt obligations remains latent. The IMF stressed that Jamaica is showing progress in implementing adjustments and reforms under the 4-year extended fund facility.

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Weakened fiscal consolidation and deleveraging efforts

Public sector debt is increasing across the region. In the last five years, gross government debt increased by 15 percentage points of GDP on average. Current account deficits (excluding T&T) will decrease marginally over the forecast horizon, keeping the region still dependent on external funding.

Wider fiscal deficits will remain of concern in the region, as they will likely stay at high levels. Costa Rica, the Bahamas and the DR are expected to continue to widen their fiscal shortfalls, while we anticipate T&T to move from a surplus to a deficit in the coming years. El Salvador may also face elevated debt sustainability concerns given the poor economic performance and low tax collection.

Governance challenges persist

Escalating drug-related violence, money laundering, policy continuity and a weak judiciary remain key challenges in the region's governance agendas. Moreover, election-related public spending increases are complicating long-term fiscal consolidation efforts and limiting economic growth prospects.

The implementation of preferential trade agreements with the US will pose short-term structural challenges for some economies, yet they will help solidify bilateral trade and investment relations in the long run. Meanwhile, the Panama Canal expansion will continue to have a material impact on regional economic developments. Finally, political challenges in Venezuela may lead to further revisions to the terms of the Petro-Caribe initiative, having a significant impact on oil supply in the region.

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Markets Will Test The Fed In 2014

- **Markets may not fully understand the Fed's signals on further near-term tapering, and we think the rate-hold promise will be challenged sooner than the Fed may wish.**

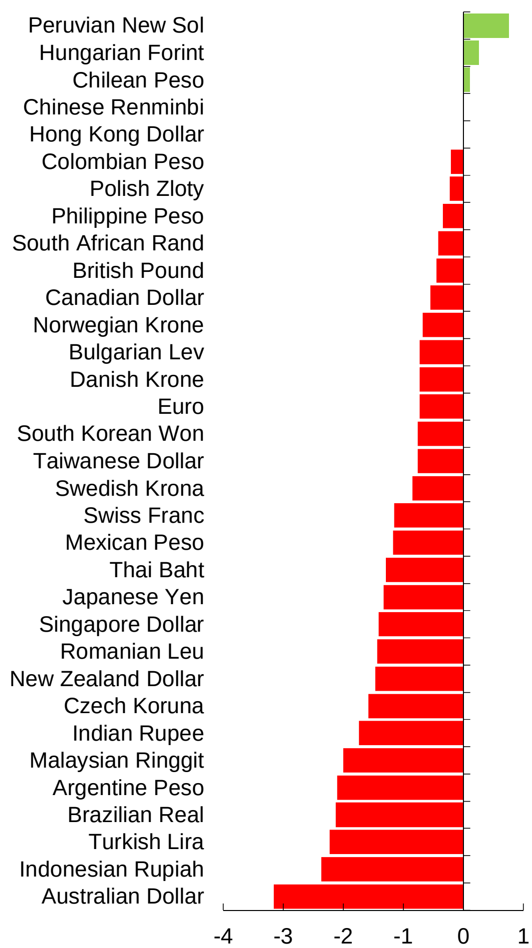
The Federal Reserve may have now set itself up for a more aggressive market test across the curve into 2014. In the belly and the long-end of the Treasury curve this could come via the fact that while the Fed may have embraced a tepid taper, it nonetheless signalled fairly strongly that there is further tapering to come in the January meeting and that there is a high bar to halt further near-term tapering. While the Fed also strengthened forecast guidance for the fed funds target, it did so in a weak manner that could easily have markets testing the front-end sooner than the Fed wishes in 2014. Simply put, we are deeply skeptical regarding forward guidance.

A High Bar Has Been Set To Knock The Fed Off Further Tapering

Asset purchases will be slowed to $35 billion for MBS and $40 billion for Treasuries in January which is only $5 billion lower on each count. **The markets may be encouraged by a modest initial taper, but they are missing the forward guidance on the high likelihood of additional near-term tapering.** By stating that "…the committee will likely reduce the pace of asset purchases in further measured steps at future meetings" as long as its forecasts remain on track, we think the Fed is saying they intend to taper again on January 29th and steadily thereafter in similarly sized steps. The Fed is unlikely to have enough additional material forecast information by then to lead them to hold off on further tapering and so a fairly high bar has been set against any expectation that they could deviate from the path toward further near-term tapering. At a $10 billion meeting-by-meeting pace of steady reductions, **it would take the Fed until October 2014 to end QE3 which is consistent with our expectations into the statement, but Chairman Bernanke continues to emphasize the data-dependency of the full path of changes in asset purchases which presents two tail risks to this time horizon.**

Just The Beginning?

% change versus the USD since December 10th



Source: Bloomberg, Scotiabank Economics.

Forward Guidance To Be Challenged In 2014

The balance the Fed is attempting to strike on forward guidance is curious and may be setting up the Fed for a challenge in 2014 like the recent experience at the Bank of England. The longer-lived experiments at Sweden's Riksbank and the Reserve Bank of New Zealand also remain appropriate forms of caution to the Fed given their tendency to miss eventual turning points in their policy rates, and then over- or under-shoot projected moves by a fairly wide margin.

Where the Fed strengthened forward rate guidance is in the following sentence: "…it will likely be appropriate to maintain the current target range for the federal funds rate **well past the time that the unemployment rate declines below 6.5%**, especially if projected inflation continues to run below the Committee's 2 per cent longer-run goal." The addition here is the "well past" reference compared to "at least as long" language that had been used previously which is now somewhat more dovish.

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Nevertheless, there are three ways in which the Fed did not strengthen forward guidance where they could have. One is that the Fed is maintaining the view that the target will be hiked in 2015 which is unchanged. This is against possible expectations that the Fed could have attempted to more strongly anchor the front-end through more participants pushing out the first projected hike. Second, the Fed did not lower the 6.5% unemployment rate threshold. Apparently it still cannot agree on doing so, and yet if it does not do so now, then it may be more difficult to do so at a future point without presenting a credibility challenge. Third, note that the contentious signalling theory approach of using a cut in the interest rate on excess reserves to anchor the front end was not used.

More important is that "well past" 6.5% is not terribly convincing when the unemployment rate is already at 7%. "Well past" could conceivably mean earlier than the 2015 guidance given the pace at which the distorted unemployment rate has been falling of late. Indeed, by dropping by about three-quarters of a point in each of the past two years, it is entirely conceivable that the unemployment rate dips well under the Fed's 6.5% threshold before the end of next year. That would have markets increasingly betting on rate hikes earlier than the Fed may wish and/or concerned about the Fed falling behind the curve.

Just The Beginning Of The Aftershocks?

These concerns lie on top of the fact that global financial instability through the early widespread correction in multiple currencies versus the USD may have only just begun (see chart). It also remains uncertain whether the Fed tapered prematurely in light of substantial slack and disinflationary pressures. While a positive initial equity and bond market response to the FOMC actions was encouraging, the equity rally just reversed an earlier sell-off while global currency implications will merit careful monitoring.

For our additional views on the FOMC statement, the Federal Reserve's updated forecasts, and Chairman Bernanke's press conference, see our post-FOMC write-up here.

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U.S. Leads, Canada Follows

Implicit in the FOMC's near-universal decision to initiate tapering in the New Year is the belief that the U.S. economy is gathering momentum. The underlying trend in domestic activity continues to firm, notwithstanding the volatility in the economic data in the fall caused by the partial U.S. federal government shutdown, the geopolitical uncertainty surrounding the Syrian conflict, and the myriad of problems associated with the shaky introduction of the Affordable Care Act that has lopped a significant number of Americans from their existing health insurance plans.

Confidence is stimulus. Expectations that the expansion will continue to gain traction have been reinforced by the recent bi-partisan agreement to continue to fund the U.S. government beyond the mid-term Congressional elections in late-2014. The self-reinforcing nature of the expansion is now being driven by consistently good monthly job and income gains, pent-up demand to replace ageing motor vehicles, and the positive contribution of demographic factors and increasing household wealth on home sales and housing construction. The U.S. is continuing to benefit from the rapidly expanding development of its oil and gas reserves, and the increased purchasing power stemming from the reduced pump prices for gasoline.

Canadian output will increasingly benefit from the expanded production and shipments of goods and services to the United States, a reflection of the highly integrated supply chains that exist both regionally as well as internationally. From a net export perspective, the degree to which Canada piggybacks on the U.S. rebound may be limited by increased competition from lower-cost producers overseas, the lack of adequate pipeline capacity to the 'lower-48' for ramped up crude oil shipments, and continued strength in imports associated with the continuing growth in domestic demand. We expect Canadian real GDP to lag the 2.5% advance expected in the U.S. next year by 0.3 percentage points, and lag the United States' 2.5% gain in 2015 by a wider 0.5 percentage points.

The U.S. dollar should continue to strengthen against most currencies, the yuan being one of the few exceptions at this time. There are an increasing number of supportive factors. The U.S. economy should outperform its peers among the advanced economies in 2014 and 2015 if not beyond. A stronger U.S. economy and the upward trend in longer-dated bond yields are an increasing magnet for investment capital from around the world, with 'reshoring' by American companies helping to rebuild its depleted manufacturing base and keep capital home at home. And while the Fed is still buying bonds and adding to its balance sheet, the pace of accommodation is slowing as it gradually reduces the pace of purchases.

The Canadian dollar has already declined by about 8% to a three-year low of just under US$0.94 vis-à-vis the greenback. The currency is at risk of trading down further over the next 12-18 months to the low-end of a US$0.90-0.95 range in view of less favourable fundamentals and a lagging economic performance. Most commodity prices have been trending lower rather than higher, reflecting slower demand from emerging market economies. Export receipts have been held back by the discounted price of crude oil received in the U.S. — Canada's largest commodity goods export and merchandise trade surplus — owing to pipeline congestion. The Bank of Canada also has removed its 'tightening bias' in the face of sharply reduced inflationary pressures triggered by sub-par growth and underutilized industrial capacity. While even further CAD weakness is possible, Canadian trade stands to benefit from the competitive realignment already underway, with expanding export volumes and a much weaker currency providing a much needed boost to earnings and a growth-enhancing narrowing in the country's merchandise trade and current account deficits.

The Fed has indicated that it will keep short-term interest rates unchanged at close to zero until late in 2015 at the earliest. Monetary officials have a dual policy mandate, so even if the U.S. unemployment rate slips below 6½% the Fed will be unwilling to tighten unless inflation is trending higher. The indicator of choice — the core PCE deflator — has been trending lower, with the year-over-year gain slumping to a minuscule 0.7%. Stronger growth and improving job/wage conditions should help re-establish a higher inflation rate, but there is considerable excess capacity around the world and the price of gas at the pump and foodstuffs are still being pressured.

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The yield curve has steepened, with investors pushing up yields in reaction to the Fed's planned reduction in bond purchases. Much of the increase occurred over the past summer, with the 10-year T-bond yield jumping from a low of around 1.65% in the spring to a high of about 3% in early September before backing down somewhat. However, the 10-year T-bond yield is edging higher and challenging the 3% level again in the aftermath of this week's Fed decision. Pro-cyclical forces, combined with tapering, should see the bellwether rate trending even higher over the next two years, with year-end targets for 2014 and 2015 expected around 3½% and 4¼% respectively. However, any further deterioration should be limited by the lack of any meaningful run-up in inflation or expectations, the Fed's gradual pace of unwinding its bond purchases, the sensitivity of housing expenditures (sales, construction and renovation activity) to rising mortgage costs, and continued cautious U.S. bank lending standards.

Canadian short-term interest rates will stay low for longer too, given the Bank of Canada's renewed concerns over slower-than-expected inflation — core CPI in November was up just 1.1% over the past 12 months — and a larger-than-expected output gap in the future with the economy underperforming. Canadian longer-dated bond yields will continue to track developments in the U.S. fixed-income market. The negative spreads off New York should persist, though for the time being domestic fundamentals are less positive relative to those in the United States.

U.S. stock markets retain an upward bias, though the record-setting performances will be tested by the imminent tapering. However, the continuing rise in many of the broad indices suggest that investors expect a strengthening U.S. economy, anchored by the Fed's commitment to keep short-term interest rates at historically low levels, will lead to stronger earnings. Capital inflows from abroad attracted by the potential for higher U.S. returns should also be supportive. The tiering in credit quality that emerged over the summer among many of the emerging market economies will likely persist. Investors are repatriating assets from countries exposed to chronic current account imbalances and high debt burdens, and whose policy reforms and adjustments (e.g. higher interest rates) to curb structural deficiencies and domestic inflation have yet to pay bigger dividends.

Canada's TSX has been one of weaker stock market performers globally over the past couple of years, largely reflecting moderating growth performances in many of the larger emerging market economies and the reduced demand and prices for many key commodities. Nevertheless, slow but steady stock market gains in Canada are likely going forward, given the gradual pick-up in economic activity around the world, though the extent of potential gains is limited in the absence of sustained upward pressure on commodity prices.

There is renewed growth optimism for many of the advanced economies, led by the United States, but also for Japan, the U.K., and the euro zone. Lower energy prices will provide a boost to the purchasing power of many consumers around the world. Even so, there are considerable downside risks to the outlook, with many of the larger emerging market economies implementing significant structural reforms that are keeping them in the relatively slower lane of growth — Brazil, Turkey and Indonesia for example. China has managed to stabilize its growth around 7½%, even as it deals with overcapacity in many sectors as part of the transition to less government-led investments and more consumer-driven activity, and ongoing efforts to control excessive domestic credit growth. But global growth is still having a hard time generating, and importantly sustaining, economic traction, reinforcing the prevalent disinflationary trends in many regions internationally.

Canadian prospects are encouraging, but critically depend upon a revitalized U.S. economy to offset the expected moderation in household activity, along with a strengthening in the demand and prices for many key commodities to bolster growth. Infrastructure upgrades are urgently needed to direct growing energy production to world markets. The currency realignment will help boost domestic manufacturing and earnings. And Ottawa is in a good position to eliminate its deficit by mid-decade, a development that would be unmatched by any other advanced economy, and which would provide the flexibility to bolster domestic competitiveness.

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Mexico's Potential In Shale Gas

The following article was published on December 18, 2013.

Although Mexico has one of the highest reserves of shale gas in the world, gas production remains disappointing, demonstrating further how Pemex's structure has limited its ability to take advantage of the country's abundant natural resources. The fact that the company has so many investment opportunities available to it that it can afford to put shale gas as a low priority item may be good news, however, both for what it says about the company's other opportunities and for the possibilities opened up to the private sector by recent energy reforms.

Introduction

In the US, shale gas has become a big business thanks to the technological advance of hydraulic fracturing, supporting 600,000 jobs and contributing $76bn to GDP in 2010.[1] Moreover, growth is expected to continue at a rapid pace, with activity rising to $118bn by 2015 and $231bn by 2035. Considering that Mexico has almost as much shale gas as the US (Figure 1), it is natural to ask, where is the corresponding boom in Mexican gas production?

Figure 1. Top 10 countries with technically recoverable shale gas resources

	—World 7,299—		
1 China	1,115	**6 Mexico**	**545**
2 Argentina	802	7 Australia	437
3 Algeria	707	8 South Africa	390
4 USA	**665**	9 Russia	285
5 Canada	**573**	10 Brazil	245

Source: Scotiabank with EIA data. Trillion Cubic Feet, as of June 2013.

Pemex started the systematic assessment of shale resources in 2010, identifying 5 geological regions with potential, of which the Burgos basin is the largest and accounts for two-thirds of Mexico's technically recoverable shale gas. The Burgos basin is noteworthy because it includes parts of the Eagle Ford formation, the same formation that has been a prolific source of production in Texas. Even as Pemex has been increasing its estimates of gas reserves, gas production has lagged far behind that of the US (Figure 2).

Figure 2. Dry natural gas production by country

	2008	2009	2010	2011	2012
World	**107,670**	**105,168**	**111,954**	**115,993**	**NA**
1 USA	**20,159**	**20,624**	**21,316**	**22,902**	**24,063**
2 Russia	21,515	19,303	21,536	22,213	23,776
3 Iran	4,107	4,986	5,161	5,361	NA
4 Canada	**6,046**	**5,634**	**5,390**	**5,218**	**5,054**
5 Qatar	2,719	3,154	3,402	4,705	NA
6 China	2,685	2,975	3,334	3,629	3,828
7 Norway	3,503	3,664	3,756	3,582	4,052
8 S. Arabia	2,841	2,770	3,096	3,258	3,644
Others					
18 Mexico	**1,694**	**1,722**	**1,799**	**1,761**	**1,906**
19 India	1,137	1,437	1,848	1,682	1,426

Source: Scotiabank with EIA data. Billion Cubic Feet.

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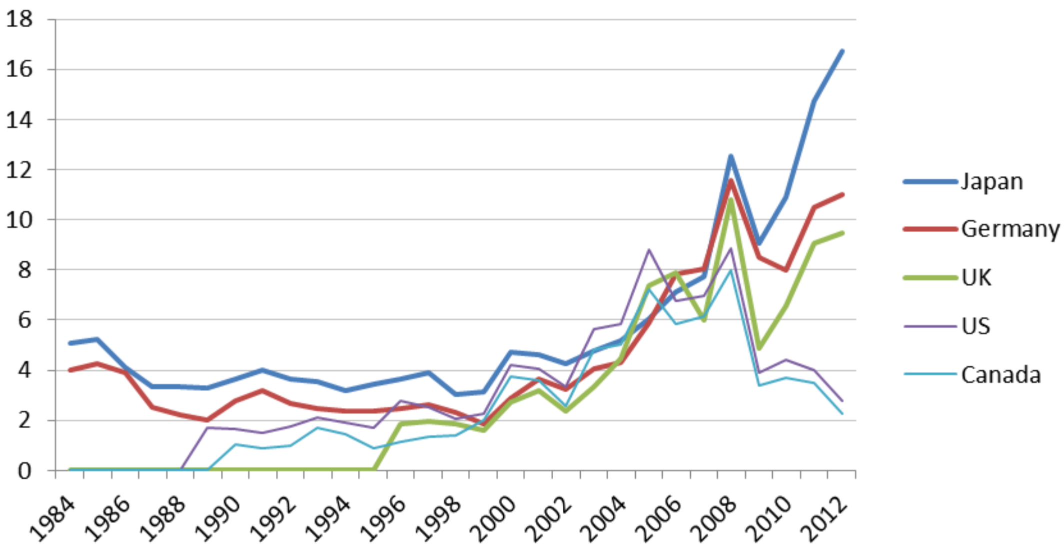
Low gas production is particularly surprising once we consider the fact that the country does not even produce enough gas to meet its own electric and industrial needs. Pemex imports of gas have actually been increasing over the past few years, while Pemex production of gas has been falling. Is there a missed opportunity here?

Why is Mexico lagging in shale gas?

There are several reasons why Mexico has been slow to develop its shale gas resources. First, an important difference between oil and gas exploration is that the transport of gas is more difficult, requiring an extensive network of pipelines, and/or liquefaction and gasification plants. That is why you see dramatic differences in gas prices around the world—$3 per mn-btu in the US and Canada on one hand and $10 to $20 in Europe and Japan on the other hand—as well as a divergence in the annual trends of prices in these countries (Figure 3).

Figure 3. Gas prices in different countries



Source: BP, in USD per million BTUs.

Mexico does not have available this required infrastructure. The local pipeline system is saturated due to an upwards trend in domestic demand, and is currently operating at 85% of theoretical maximum capacity. In the past year, there were 22 early warnings of shortages, such that industrial users have had to reduce their consumption and/or switch to more expensive and dirtier fuels. The costs to the electric sector of having to use alternative fuels was 19bn MXN. While Pemex and CFE have plans for expanding the pipelines, obviously even greater investment would be required to make Mexico a net exporter of gas.

Second, exploring for shale gas requires tremendous investment. IHS estimates $33bn in shale gas capex for the US in 2010, rising to $49bn by 2015. In contrast, Pemex's capex budget for all natural gas projects (not just shale gas) is $2.3bn, and the company's entire capex budget for all upstream activities is 28bn. Obviously, investments of the magnitude made in the US are far beyond the company's grasp. Pemex estimates that tens of thousands of wells would be necessary to exploit its shale gas resources, an activity driven in the US by many firms, rather than just one state-run enterprise.

Third, in relative terms, shale gas is not as profitable as crude oil exploration for Pemex. The marginal cost of extracting oil for Pemex remains low, especially relative to today's high crude prices. Meanwhile gas prices in North America have fallen significantly as a result of the shale boom in the US. It is ultimately this reasoning that ensures that Pemex, at least under the previous regulatory regime, would not explore shale gas reserves in any significant quantities, preferring to focus on the abundant opportunities in crude oil.

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What will change under the new energy reform?

Overall, the reform should encourage the entrance of foreign capital, since it will permit a variety of forms of private sector participation in the Mexican oil, gas, and electricity sectors, including profit sharing, production sharing, and licenses. We suspect the most attractive opportunities will be exploited through joint ventures between private companies and Pemex, while other projects could be done by the private sector alone.

The reform bill addresses shale gas specifically. The government recognizes that Pemex does not currently have the financial resources to explore shale gas at scale. In fact, lack of resources at Pemex means that it currently cannot explore conventional gas associated with crude oil deposits, much less shale gas. As a result, the government intends to permit private companies to explore shale on their own.

In the US, shale gas represents an ever increasing fraction of total gas production, having risen from 17% in 2009, to 36% this year, and expected to rise to 50% by year 2040 (Figure 4). If all of the reforms are implemented as planned, Mexico could follow that path as well, despite a late start. Considering the number of opportunities that may open up all at once, we do not expect this sector to be a priority for Pemex. Instead, we could see benefits to the sovereign in the form of higher tax receipts and license fees from private sector participants, as well as perhaps less hard currency leaving the country to import gas.

Figure 4. US natural gas production by category

	2009	**2012**	**2013**	**2020**	**2040**
Non-associated onshore	4.15	3.89	3.51	2.97	1.87
Associated with oil	2.11	2.48	2.59	2.8	1.82
Coalbed methane	1.72	1.67	1.69	1.71	2.11
Non-associated offshore	2	1.65	1.41	1.41	2.11
Alaska	0.37	0.32	0.31	0.28	1.18
Tight gas	6.8	5.76	5.89	6.4	7.34
Shale gas	**3.47**	**8.13**	**8.6**	**11.05**	**16.7**
Total	**20.62**	**23.91**	**24**	**26.61**	**33.14**
Shale gas/Total	17%	34%	36%	42%	50%

Source: Scotiabank with EIA data. Trillion Cubic Feet

Endnotes:

[1] Estimates are from IHS Global Insight.

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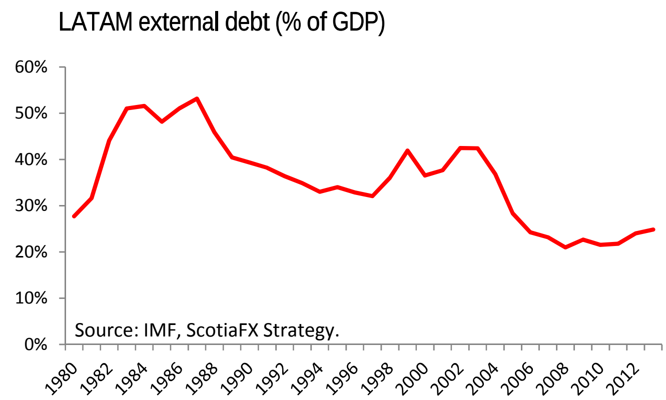
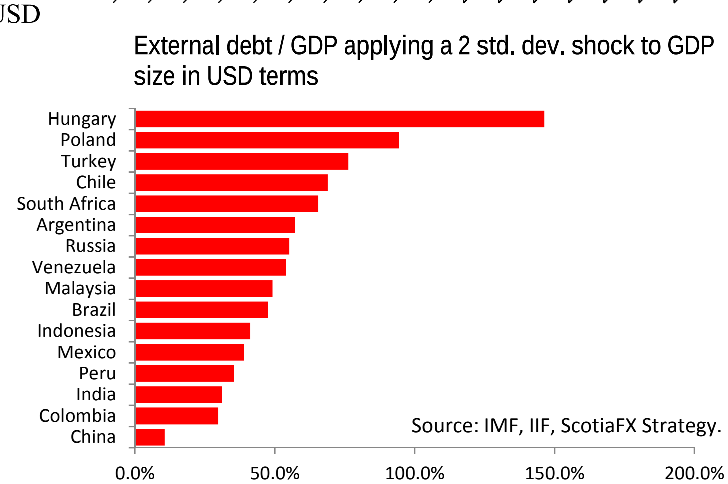
Takeaways From Our LATAM FX Outlook For 2014

Is LATAM prepared to deal with a strengthening USD?

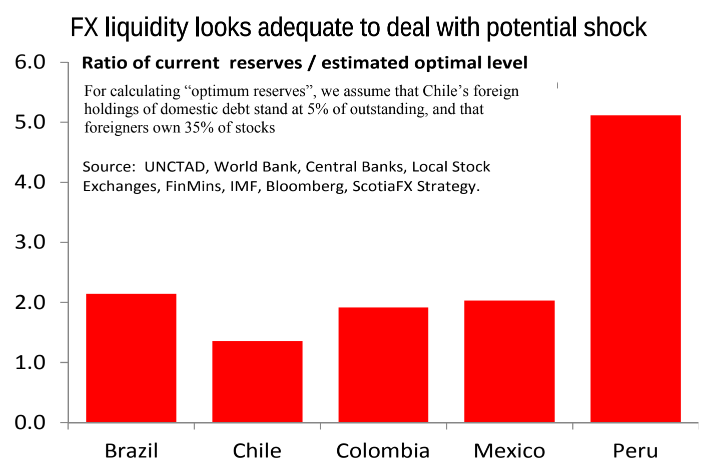
One of the risks we see for LATAM FX as we move into the "loose policy reversal" stage by the Fed is that as the USD strengthens, the value of regional output in USD terms could suffer a downside correction. In our view, one of the causes of the LATAM debt crisis of the 80s was the correction in the value of commodity-linked USD receipts. At the start of the 80s, the region's external debt ratios were actually not materially different from current ones (see chart to the right).



In our view, this could expose some vulnerabilities in the region that are currently masked by a weak greenback. It is important to remember that the "USD component" of commodity-related receipts, actually has the greenback in the denominator, and hence a stronger USD could lead to some stress across LATAM (or elsewhere). As a very simple (hopefully not "oversimplified") proxy for how vulnerable countries are to a USD / commodity reversal, we calculated the volatility of countries' GDP in USD terms over the last cycle, which will hopefully serve as a broad estimate of what can happen if the commodity cycle / USD weakness we have seen over the past decade or so turns. We gave the GDP's of each of the countries a 2 Std. Dev. adverse shock as a proxy of what could happen if the USD turned, and calculated what current external debt levels would represent as a share of the "reduced GDP levels in USD terms". Encouragingly, most of the "good economies" (i.e. investment grade) in the region appear to fare relatively well.



An additional saving grace of the region is that over the recent cycle, they have accumulated adequate levels of foreign currency liquidity. Based on the IMF's methodology for estimating what the "recommended level of FX reserves" should be, the LATAM FX5 economies all have reserves that are multiples of what should be enough to deal with a typical shock, with Peru apparently having the strongest FX reserve war-chest.



Our sense is that these "mis-matches" could lead to pockets of weakness among the investment grade Latam economies if the USD rally does materialize. But we believe that on an aggregate level, the region's economies are in relatively good shape from a balance of payments perspective.

Highlights from our country views:

Mexico: Although we believe that as Fed policy is normalized, the logical development is for MXN to weaken, and Mexican yields to rise, we believe adjustments will be orderly (we see room for spread compression of local yields vs US yields).

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- Ratings: potential for "ratings family bump-up" is likely to be Fitch (BBB+; stable) dependent, as S&P already upgraded the country on December 20th (now BBB+; stable) and Moodys (Baa1: positive) has clearly signaled that an upgrade could be in the cards (which we see as priced in — but not a "ratings letter" bump-up).
- Lehman crisis experience suggests that being part of global benchmarks shielded m-bono's from the sell-off, leading foreign holdings to drop, but not collapse. In addition, the IMF has found that countries where the exchange rate is more flexible tend to have steadier foreign holdings. In addition, since the crisis the changes to afores' regulations have made their holdings less pro-cyclical. We see this as reassuring given high foreign holdings of local debt (which we see to a large degree structural—given benchmarking). We see potential for some foreign holdings un-winding, but nothing Banxico's liquidity can't comfortably handle.
- 10-2 TIIE spread is currently near its peak in 2004, which to us suggests that although caution may be warranted, the steepening move has more or less run its course (the period in question included the "Lehman crisis").
- In addition, Mexico's manufacturing heavy economy should be less vulnerable to a rising USD than other more commodity heavy economies in the region (which have accumulated much stronger terms of trade tailwinds). At the same time, the Mexican economy's strong links into the strengthening US economy should be positive.
- Accordingly, we expect MXN to outperform other LATAM FX5, and favour strategically pairing it with BRL and CLP.
- Our sense is that the "fair value spread" of Mexican TIIE over the corresponding US swaps is comprised of:
    - Credit risk premium: Mexican CDS are trading at 89bps.
    - FX risk: 150bps – 250bps range, based on REER.
    - Liquidity risk: we use the differential between the "swapito arbitrage" and the corresponding US t-bill, which tends to hover around 40bps (assuming it is flat through the curve).
    - Our estimate is that the "fair value spread between US and Mexican rates is somewhere between 320bps and 350bps.

Brazil: We would like to be contrarians and turn more strategically bullish on BRL, but unfortunately cannot find a convincing reason to do so. In our view, the manufacturing industry is not geared or ready to be competitive as an exporter industry, while public finances and household leverage remain areas of concern. It is hard to envision a sustainable driver for stronger growth. Given our still cautious view on the economic outlook, while we don't discount tactical bounces, we remain structurally bearish BRL.

Chile: The jury is still out on President-elect Bachelet's planned economic model re-engineering, and will likely remain so for a prolonged period. First, the changes actually have to materialize, but also, reform digestion/implementation processes take time, and this is likely to be especially true with an education system upgrade. One of the elements to monitor though, will be whether the planned tax changes affect investment (and growth), as well as whether planned spending is kept in check. From a near-term FX market perspective, the important part of the puzzle will likely be the results of planned tax changes on FDI.

Colombia: A successful completion of the peace process could be a boost for COP, as it would likely raise FDI expectations as the risk to oil facility attacks would be seen falling, while additional areas of the country could then be open for investment. However, unless we get a surprise on the Fed policy shift and the broad USD strength that seems to now be a consensus view does not materialize, our bias for COP's trend is still to the downside as commodity tailwinds fade and the planned push on the manufacturing front is likely to be a long-term story. Intervention threat will likely continue to cap potential COP gains.

Peru: We see Peru as among the best-positioned economies in the region to face an environment of a strengthening USD and rising global rates, with low leverage levels, and an extremely strong level of FX reserves providing solid buffers. In addition, although fading terms of trade could lead to somewhat slower growth, we see room for an infrastructure development push, and income level "catch-up" to its Pacific Alliance partners (and other regional economies) keeping growth at healthy levels (potentially closer to 5% for the long term). We expect the country's diversified commodity basket, and central bank intervention to help make PEN among the top-2 performing major regional FX during 2014

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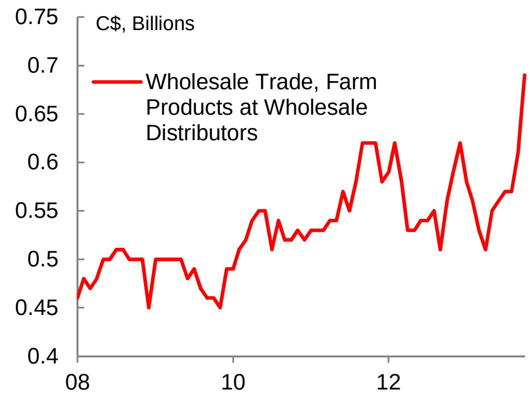
Key Data Preview

CANADA

We're expecting a fairly strong outcome when October **GDP** figures are released on the 23rd. Our forecast is for a 0.3% m/m print with upside risks and is based on very solid monthly data from the industrial and farm sides of the economy. Wholesale trade volumes were higher by 1.2% and manufacturing volumes were up by 1% m/m. Neither print was narrow or distorted — both showed solid gains across a wide range of categories — but the strongest component was on the farm side of the economy, with record wholesale trade in foodstuffs (see chart) and food processing/manufacturing was a strong plus as well. Industrial machinery output was also robust. Solid if unspectacular retail sales volumes (+0.2% m/m) round out the cause of the upside risks.

Canada: Bumper Crop Bolsters GDP
Record Farm Products Trade in Oct.

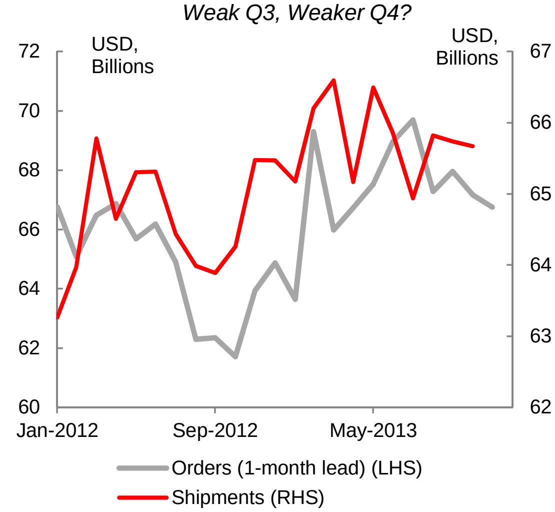


Source: Statistics Canada, Scotiabank Economics

UNITED STATES

We're expecting some strength on the **durable goods** front, with an uptick in orders at Boeing (110 vs. 79 in October) likely to propel headline new orders of durable goods to a 2% m/m gain. That said, the solid result won't just be about airplane orders. Assemblies of vehicles reported in the industrial production numbers were very strong (+4.6% m/m) and, as many of the orders are 'just in time', that leads us to expect support from the autos side of the picture. The ISM headline came in at 57.3 in November (vs. 56.4 in October) and new orders were up strongly as well (63.6 in November vs. 60.6 in October) leading us to expect strong expansion on core orders. The wild card here is whether or not new orders of non-defense capital goods (ex-aerospace) will pick up after a disappointingly weak Q3 (see chart). One theory to explain the weakness has been uncertainty regarding growth and fiscal policy — which seems to have been addressed in recent weeks. The other theory is that capital goods orders are sensitive to changes in interest rates because companies borrow to buy large machinery — and the rise in interest rates may be hurting purchases (although the low level of rates ought to mitigate that somewhat). Perhaps it's just a matter of waiting when it comes to the hoped-for capital goods rebound.

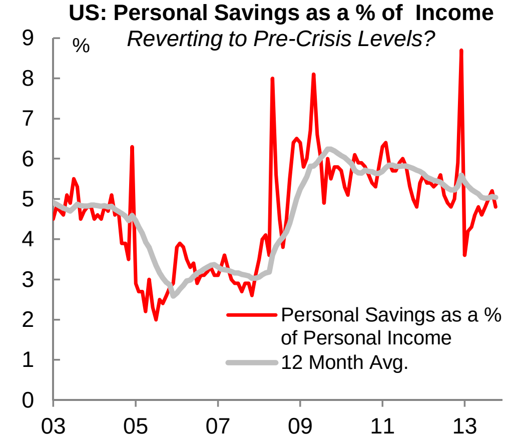
US: Capital Goods Orders & Shipments
Weak Q3, Weaker Q4?



Source: US Census Bureau, Scotiabank Economics

Consumption and income numbers for November should come in reasonably strong. We're anticipating that incomes will be up by 0.5% m/m overall after a robust wage gain of 0.6% reflected in the BLS's payrolls numbers. We're also fairly bullish on spending numbers, looking for a 0.6% m/m print after retail sales were up by an even stronger 0.7% m/m. While this would point to a deterioration in the savings rate, note that the savings rate too made substantial progress in recent years and is still well above pre-crisis levels when viewed in terms of the 12-month moving average (see chart).

US: Personal Savings as a % of Income
Reverting to Pre-Crisis Levels?



Source: BEA, Scotiabank Economics

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EUROPE

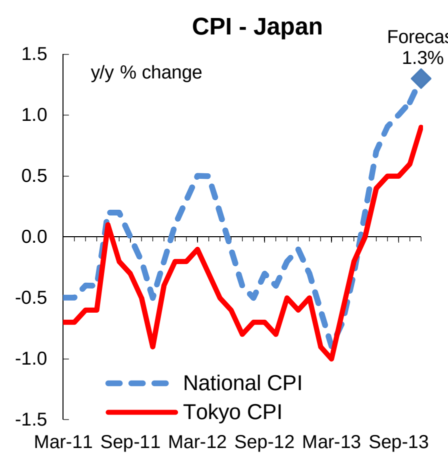
Headlining a very scant European data calendar next week will be the November consumer spending report in France. In October, spending contracted for a third consecutive month, dipping 0.2% m/m and bringing the year-to-date average to 0%. We expect a modest rebound of around 0.3% m/m in November, with momentum likely to carry over into the final month of 2013. A number of factors signal that an upturn is likely. Firstly, there is historically a seasonal effect, whereby November expenditures tend to bounce higher following lacklustre October figures. This is associated with higher energy use as the weather turns colder, as well as increased shopping activity around the holidays. Secondly, there is a value-added tax hike coming into effect on January 1st, and this is likely to prompt some early sales as households bring forward purchases to avoid paying the additional tax. There is also a stricter set of emissions standards coming into effect pertaining to the tax/rebate system on new vehicle purchases. Lastly, the unemployment rate appears to finally be stabilizing after reaching a record-high 11.1% in September. The modest decline witnessed in October, which will likely be maintained in November-December, could add further support to consumer activity. Insee, the French national statistics agency, expects consumer spending to rise 0.3% q/q in the fourth quarter, which should support a pick-up in GDP growth to 0.4% q/q following the 0.1% contraction in the July-September period. We are less optimistic on output prospects in the quarter as we do not see much of a rebound in investment or exports; we anticipate a modest gain of 0.1-0.2% q/q, bringing the annual growth rate to 0.2%.

LATIN AMERICA

Next week will be very light in terms of economic releases in Latin America around the holiday season. December's bi-weekly inflation will be released in Mexico and we anticipate that the trend will remain unchanged. Headline inflation rose to 3.6% y/y in November after remaining slightly below the 3.4% mark for four months. We do not see this as a significant change in the inflation trend, as prices were affected by seasonal factors such as the ending of subsidies to electricity tariffs during the summer period. In our view, Mexican inflation will likely accelerate through 2014, reflecting the effect of higher taxes due to the new fiscal reform. As this negative effect will likely be temporary, we do not foresee any changes to the monetary policy stance in the coming quarters.

ASIA

Japan will release inflation data on December 26th. Even though Japan's nation-wide inflation reached 1.1% y/y in October, it is far from being demand driven — i.e. a result of higher wages and stronger spending — but instead primarily reflects elevated energy costs. Indeed, inflation excluding food and energy was only 0.3% y/y in October. We estimate that the headline CPI ticked up by 1.3% y/y in November. Tokyo consumer price inflation, which is released one month in advance, climbed to 0.9% y/y in November from 0.6% the month before. We expect that a consumption tax rate increase in April 2014, which will take the rate from 5% to 8%, will temporarily bring inflation to the Bank of Japan's (BoJ) 2% target in mid-2014. Apart from this temporary development, significant yen depreciation combined with the central bank's monetary stimulus efforts should translate into modest price gains in the coming quarters, though the nationwide inflation rate will likely hover around 1½% y/y at the end of 2014. Monetary policymakers at the BoJ will likely remain in wait-and-see mode in the coming months in order to continue to assess the effectiveness of the monetary-base targeting scheme implemented earlier this year. In our view, there is potential for further monetary easing by the BoJ in the first half of 2014 if the tax rate hike leads to a stalling of ongoing economic momentum.



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of December 23 – 27

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/23	08:30	Real GDP (m/m)	Oct	0.3	0.2	0.3
US	12/23	08:30	PCE Deflator (m/m)	Nov	0.0	0.1	0.0
US	12/23	08:30	PCE Deflator (y/y)	Nov	0.8	0.9	0.7
US	12/23	08:30	PCE ex. Food & Energy (m/m)	Nov	0.1	0.1	0.1
US	12/23	08:30	PCE ex. Food & Energy (y/y)	Nov	1.2	1.2	1.1
US	12/23	08:30	Personal Spending (m/m)	Nov	0.6	0.5	0.3
US	12/23	08:30	Personal Income (m/m)	Nov	0.5	0.5	-0.1
MX	12/23	09:00	Bi-Weekly Core CPI (% change)	Dec 15	--	0.3	0.0
MX	12/23	09:00	Bi-Weekly CPI (% change)	Dec 15	--	0.4	0.0
US	12/23	09:55	U. of Michigan Consumer Sentiment	Dec F	83.0	83.0	82.5
US	12/24	07:00	MBA Mortgage Applications (w/w)	DEC 20	--	--	-5.5
US	12/24	08:30	Durable Goods Orders (m/m)	Nov	2.0	1.8	-1.6
US	12/24	08:30	Durable Goods Orders ex. Trans. (m/m)	Nov	0.7	0.7	0.4
US	12/24	10:00	New Home Sales (000s a.r.)	Nov	450.0	440.0	444.0
US	12/24	10:00	Richmond Fed Manufacturing Index	Dec	--	10.0	13.0
US	12/26	08:30	Initial Jobless Claims (000s)	DEC 21	345	347	379
US	12/26	08:30	Continuing Claims (000s)	DEC 14	2800	2725	2884
MX	12/26	09:00	Trade Balance (US$ mn)	Nov P	--	--	-128.9

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	12/24	02:45	Consumer Spending (m/m)	Nov	0.3	0.4	-0.2
FR	12/24	02:45	GDP (q/q)	3Q F	-0.1	-0.1	-0.1
FR	12/26	12:00	Total Jobseekers (000s)	Nov	--	3270.0	3275.2
FR	12/26	12:00	Jobseekers Net Change (000s)	Nov	--	-5.0	-20.5
FR	12/27	02:45	Producer Prices (m/m)	Nov	--	-0.1	-0.2
SP	12/27	06:59	Current Account (€ bn)	Oct	--	--	0.3

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of December 23 – 27

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TA	12/22	19:30	Unemployment Rate (%)	Nov	4.2	4.2	4.2
SI	12/23	00:00	CPI (y/y)	Nov	--	2.5	2.0
HK	12/23	03:30	CPI (y/y)	Nov	--	4.3	4.3
SK	12/23	06:59	Discount Store Sales (y/y)	Nov	--	--	-6.40
SK	12/23	06:59	Department Store Sales (y/y)	Nov	--	--	-2.2
TA	12/24	03:00	Commercial Sales (y/y)	Nov	--	2.5	1.8
TA	12/24	03:00	Industrial Production (y/y)	Nov	--	1.0	0.8
TH	12/24	06:59	Customs Exports (y/y)	Nov	--	-4.3	-0.7
TH	12/24	06:59	Customs Imports (y/y)	Nov	--	-2.5	-5.4
TH	12/24	06:59	Customs Trade Balance (US$ mn)	Nov	--	-1800.0	-1770.6
SK	12/25	16:00	Consumer Confidence Index	Dec	--	--	107.0
JN	12/25	18:15	Markit/JMMA Manufacturing PMI	Dec	--	--	55.1
JN	12/26	00:00	Housing Starts (y/y)	Nov	--	9.2	7.1
JN	12/26	00:00	Construction Orders (y/y)	Nov	--	--	61.1
SI	12/26	00:00	Industrial Production (y/y)	Nov	--	5.1	8.0
TA	12/26	04:00	**Benchmark Interest Rate**	**Dec 26**	**1.88**	**1.88**	**1.88**
SK	12/26	16:00	Business Survey- Manufacturing	Jan	--	--	78.0
SK	12/26	16:00	Business Survey- Non-Manufacturing	Jan	--	--	72.0
JN	12/26	18:30	Household Spending (y/y)	Nov	--	1.8	0.9
JN	12/26	18:30	Jobless Rate (%)	Nov	3.9	3.9	4.0
JN	12/26	18:30	National CPI (y/y)	Nov	1.3	1.5	1.1
JN	12/26	18:30	Tokyo CPI (y/y)	Dec	1.0	0.9	0.9
JN	12/26	18:50	Large Retailers' Sales (y/y)	Nov	--	0.8	-0.1
JN	12/26	18:50	Retail Trade (y/y)	Nov	--	2.9	2.4
JN	12/26	18:50	Industrial Production (y/y)	Nov P	--	5.4	5.4
PH	12/26	20:00	Imports (y/y)	Oct	--	--	7.2
PH	12/26	20:00	Trade Balance (US$ mn)	Oct	--	--	-666.0
CH	12/26	20:30	Industrial Profits YTD (y/y)	Nov	--	--	13.7
JN	12/26	23:00	Vehicle Production (y/y)	Nov	--	--	10.1
TH	12/27	02:30	Exports (y/y)	Nov	--	--	-0.5
TH	12/27	02:30	Imports (y/y)	Nov	--	--	-4.6
TH	12/27	02:30	Trade Balance (US$ mn)	Nov	--	--	337.0
TH	12/27	02:30	Current Account Balance (US$ mn)	Nov	--	--	376.0
TH	12/27	02:30	Business Sentiment Index	Nov	--	--	47.4
TA	12/27	03:00	Leading Index (m/m)	Nov	--	--	0.5
TA	12/27	03:00	Coincident Index (m/m)	Nov	--	--	0.1

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of December 23 – 27

North America

Country	Date	Time	Event
US	12/23	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	12/23	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	12/23	11:30	U.S. to Sell USD27 Bln 6-Month Bills
MX	12/23	12:30	1M T-Bill Yield
MX	12/23	12:30	1M T-Bill Bid/Cover Ratio
MX	12/23	12:30	1M T-Bill Amount Sold
MX	12/23	12:30	3M T-Bill Yield
MX	12/23	12:30	3M T-Bill Bid/Cover Ratio
MX	12/23	12:30	3M T-Bill Amount Sold
MX	12/23	12:30	6M T-Bill Yield
MX	12/23	12:30	6M T-Bill Bid/Cover Ratio
MX	12/23	12:30	6M T-Bill Amount Sold
MX	12/23	12:30	20Y Fixed Yield
US	12/23	13:00	U.S. to Sell USD20 Bln 4-Week Bills

Europe

Country	Date	Time	Event
FR	12/23	08:50	France to Sell Bills
IT	12/27	05:00	Italy to Sell 6-Month Bills
IT	12/27	05:00	Italy to Sell Bonds

Asia Pacific

Country	Date	Time	Event
JN	12/24	22:45	Japan to Sell 2-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 23 – 27

North America

Country	Date	Time	Event
US	12/21	10:00	Iran Nuclear Agreement - Hearing

Europe

Country	Date	Time	Event
IT	12/23	06:00	Italy Premier Letta Year-End Press Conference
IT	12/23	09:00	Italian Govt Confidence Vote on Budget Law in Senate
PO	12/23		Portugal Releases Year-to-Date Budget Report
PO	12/27	06:00	Portugal Reports Third-Quarter GDP by Institutional Sector

Asia Pacific

Country	Date	Time	Event
NZ	12/22	21:00	RBNZ Publishes Residential Mortgage Lending Data
JN	12/24	00:00	Bank of Japan's Monthly Economic Report for December
JN	12/24	23:00	BOJ Governor Kuroda Speaks at Keidanren
JN	12/25	18:50	Bank of Japan November 20-21 meeting minutes
TA	12/26	04:00	**CBC Benchmark Interest Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 22, 2014	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	January 29, 2014	0.25	--
Banco de México – Overnight Rate	3.50	January 31, 2014	3.50	--

BoC: With inflation very low, we expect the BoC to maintain its emphasis on undershooting CPI, leading to concomitant weakness in CAD and downwards pressure on front-end interest rates. **Fed**: The Fed embraced a tepid taper but signalled fairly strongly that there is further tapering to come in the January meeting and that there is a high bar to halt further near-term tapering. The Fed also strengthened forecast guidance for the fed funds target but in a weak manner that could easily have markets testing the front-end sooner than the Fed wishes in 2014.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.25	January 9, 2014	0.25	0.25
Bank of England – Bank Rate	0.50	January 9, 2014	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 20, 2014	0.00	--
Central Bank of Russia – One-Week Auction Rate	5.50	February 14, 2014	5.50	--
Hungarian National Bank – Base Rate	3.00	January 30, 2014	3.00	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	4.50	TBA	4.50	--
Sweden Riksbank – Repo Rate	0.75	February 13, 2014	0.75	--
Norges Bank – Deposit Rate	1.50	March 27, 2014	1.50	--

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Reserve Bank of Australia – Cash Target Rate	2.50	February 3, 2014	2.50	2.50
Reserve Bank of New Zealand – Cash Rate	2.50	January 29, 2014	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.75	January 28, 2014	8.00	--
Bank of Korea – Bank Rate	2.50	January 8, 2014	2.50	--
Bank of Thailand – Repo Rate	2.25	January 22, 2014	2.25	--
Bank Indonesia – Reference Interest Rate	7.50	TBA	7.50	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	10.00	January 15, 2014	10.25	--
Banco Central de Chile – Overnight Rate	4.50	January 17, 2014	4.50	--
Banco de la República de Colombia – Lending Rate	3.25	TBA	3.25	3.25
Banco Central de Reserva del Perú – Reference Rate	4.00	January 9, 2014	4.00	4.00

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 29, 2014	5.00	--

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Forecasts as at November 29, 2013*	2000-12	2013e	2014f	2015f	2000-12	2013e	2014f	2015f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	2.9	3.5	3.6				
Canada	2.2	1.7	2.2	2.5	2.1	1.0	1.3	1.8
United States	1.9	1.6	2.5	3.0	2.5	1.5	1.6	1.9
Mexico	2.4	1.3	3.3	3.7	4.7	3.9	4.3	4.0
United Kingdom	1.7	1.5	2.5	1.7	2.3	2.0	2.2	2.4
Euro Zone	1.3	-0.5	0.8	1.3	2.1	0.8	1.2	1.4
Japan	0.9	1.9	1.8	1.2	-0.3	1.0	1.5	2.1
Australia	3.1	2.4	2.7	2.9	3.0	2.5	3.0	2.9
China	9.3	7.7	7.3	7.0	2.4	3.0	3.3	3.9
India	7.2	4.5	5.2	5.7	6.7	6.8	7.1	6.7
South Korea	4.3	2.7	3.3	3.5	3.1	1.0	2.2	2.5
Thailand	4.2	3.5	4.0	4.5	2.7	1.6	2.5	2.9
Brazil	3.4	2.3	2.8	3.4	6.5	6.0	5.7	5.8
Chile	4.5	4.4	4.4	4.7	3.2	2.5	3.0	3.0
Peru	5.7	5.1	5.4	5.6	2.6	2.9	3.0	2.5

Central Bank Rates (%, end of period)	**13Q4f**	**14Q1f**	**14Q2f**	**14Q3f**	**14Q4f**	**15Q1f**	**15Q2f**	**15Q3f**
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reserve Bank of Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.06	1.07	1.08	1.07	1.06	1.06	1.05	1.04
Canadian Dollar (CADUSD)	0.94	0.93	0.93	0.93	0.94	0.94	0.95	0.96
Euro (EURUSD)	1.31	1.30	1.29	1.27	1.25	1.25	1.24	1.24
Sterling (GBPUSD)	1.60	1.60	1.59	1.58	1.57	1.55	1.54	1.53
Yen (USDJPY)	101	102	104	107	109	110	111	112
Australian Dollar (AUDUSD)	0.89	0.87	0.90	0.90	0.93	0.93	0.94	0.94
Chinese Yuan (USDCNY)	6.1	6.1	6.1	6.1	6.0	5.9	5.9	5.9
Mexican Peso (USDMXN)	13.2	13.2	13.1	13.2	13.4	13.4	13.4	13.5
Brazilian Real (USDBRL)	2.25	2.25	2.28	2.29	2.30	2.28	2.25	2.23

Commodities (annual average)	**2000-12**	**2013e**	**2014f**	**2015f**
WTI Oil (US$/bbl)	60	98	92	90
Brent Oil (US$/bbl)	62	109	108	108
Nymex Natural Gas (US$/mmbtu)	5.45	3.70	3.75	4.00
Copper (US$/lb)	2.22	3.30	3.10	3.00
Zinc (US$/lb)	0.78	0.87	0.97	1.40
Nickel (US$/lb)	7.64	6.95	7.25	7.60
Gold, London PM Fix (US$/oz)	745	1,410	1,270	1,375
Pulp (US$/tonne)	730	936	940	970
Newsprint (US$/tonne)	585	608	615	650
Lumber (US$/mfbm)	274	356	390	400

[1] World GDP for 2003-12 are IMF PPP estimates; 2013-15f are Scotiabank Economics' estimates based on a 2012 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotiabank Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	1.7	1.6	2.7		
Current Acc. Bal. (C$B, ar)	-62.2	-63.7	-61.9		
Merch. Trade Bal. (C$B, ar)	-12.0	-9.9	-9.0	0.9	(Oct)
Industrial Production	0.9	0.1	1.9	3.2	(Sep)
Housing Starts (000s)	215	190	193	192	(Nov)
Employment	1.2	1.2	1.3	1.1	(Nov)
Unemployment Rate (%)	7.3	7.1	7.1	6.9	(Nov)
Retail Sales	2.5	2.7	3.1	3.0	(Oct)
Auto Sales (000s)	1673	1745	1776	1775	(Sep)
CPI	1.5	0.8	1.1	0.9	(Nov)
IPPI	0.6	0.3	1.3	-0.8	(Oct)
Pre-tax Corp. Profits	-4.9	-8.2	-1.1		

United States	2012	13Q2	13Q3	Latest	
Real GDP (annual rates)	2.8	2.5	4.1		
Current Acc. Bal. (US$B, ar)	-440	-386	-379		
Merch. Trade Bal. (US$B, ar)	-741	-703	-715	-723	(Oct)
Industrial Production	3.6	2.1	2.4	3.3	(Nov)
Housing Starts (millions)	0.78	0.87	0.88	1.09	(Nov)
Employment	1.7	1.6	1.7	1.7	(Nov)
Unemployment Rate (%)	8.1	7.6	7.3	7.0	(Nov)
Retail Sales	5.0	4.7	4.7	4.6	(Nov)
Auto Sales (millions)	14.4	15.5	15.7	16.3	(Nov)
CPI	2.1	1.4	1.6	1.2	(Nov)
PPI	1.9	1.5	1.2	0.7	(Nov)
Pre-tax Corp. Profits	18.5	3.7	3.5		

Mexico	2012	13Q2	13Q3	Latest	
Real GDP	3.9	1.6	1.3		
Current Acc. Bal. (US$B, ar)	-14.6	-19.9	-21.8		
Merch. Trade Bal. (US$B, ar)	0.0	-3.4	-4.1	-1.5	(Oct)
Industrial Production	2.6	-0.3	-0.5	0.1	(Oct)
CPI	4.1	4.5	3.4	3.6	(Nov)

Europe

Euro Zone	2012	13Q2	13Q3	Latest	
Real GDP	-0.6	-0.6	-0.4		
Current Acc. Bal. (US$B, ar)	162	276	285	429	(Oct)
Merch. Trade Bal. (US$B, ar)	122.0	272.2	220.9	321.5	(Oct)
Industrial Production	-2.5	-0.9	-1.2	-0.1	(Oct)
Unemployment Rate (%)	11.3	12.1	12.1	12.1	(Oct)
CPI	2.5	1.4	1.3	2.7	(Nov)

Germany	2012	13Q2	13Q3	Latest	
Real GDP	0.9	0.4	0.5		
Current Acc. Bal. (US$B, ar)	240.8	240.3	235.1	312.1	(Oct)
Merch. Trade Bal. (US$B, ar)	245.1	249.5	262.4	273.7	(Oct)
Industrial Production	-0.4	-0.5	-0.2	1.1	(Oct)
Unemployment Rate (%)	6.8	6.8	6.8	6.9	(Nov)
CPI	2.0	1.5	1.6	3.1	(Nov)

France	2012	13Q2	13Q3	Latest	
Real GDP	0.0	0.5	0.2		
Current Acc. Bal. (US$B, ar)	-57.3	-36.2	-49.6	-56.2	(Oct)
Merch. Trade Bal. (US$B, ar)	-52.4	-43.8	-47.4	-41.3	(Oct)
Industrial Production	-2.5	0.6	-1.4	0.0	(Oct)
Unemployment Rate (%)	10.3	10.8	11.0	10.9	(Oct)
CPI	2.0	0.8	0.9	1.7	(Nov)

United Kingdom	2012	13Q2	13Q3	Latest	
Real GDP	0.3	2.0	1.9		
Current Acc. Bal. (US$B, ar)	-92.7	-35.3	-167.6		
Merch. Trade Bal. (US$B, ar)	-172.4	-155.9	-182.6	-188.0	(Oct)
Industrial Production	-2.5	-0.5	-0.1	3.2	(Oct)
Unemployment Rate (%)	8.0	7.8	7.6	7.4	(Sep)
CPI	2.8	2.7	2.7	4.4	(Nov)

Italy	2012	13Q2	13Q3	Latest	
Real GDP	-2.6	-2.2	-1.8		
Current Acc. Bal. (US$B, ar)	-8.1	20.2	35.8	65.8	(Oct)
Merch. Trade Bal. (US$B, ar)	12.4	49.4	41.4	66.6	(Oct)
Industrial Production	-6.4	-3.5	-3.9	-1.1	(Oct)
CPI	3.1	1.2	1.0	2.7	(Nov)

Russia	2012	13Q2	13Q3	Latest	
Real GDP	3.4	1.2	1.2		
Current Acc. Bal. (US$B, ar)	74.8	3.4	1.1		
Merch. Trade Bal. (US$B, ar)	16.0	14.2	14.3	13.2	(Oct)
Industrial Production	-5.3	0.3	-0.1	-1.0	(Nov)
CPI	5.1	7.2	6.4	6.5	(Nov)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	13Q2	13Q3	Latest	
Real GDP	3.6	2.4	2.3		
Current Acc. Bal. (US$B, ar)	-64.1	-31.9	-52.8		
Merch. Trade Bal. (US$B, ar)	5.9	32.6	12.8	8.4	(Oct)
Industrial Production	4.8	5.0	2.7		
Unemployment Rate (%)	5.2	5.6	5.7	5.8	(Nov)
CPI	1.8	2.4	2.2		

Japan	2012	13Q2	13Q3	Latest	
Real GDP	1.4	1.3	2.4		
Current Acc. Bal. (US$B, ar)	60.4	70.0	53.4	-15.7	(Oct)
Merch. Trade Bal. (US$B, ar)	-85.8	-89.1	-117.9	-161.5	(Nov)
Industrial Production	0.2	-3.1	1.9	5.3	(Oct)
Unemployment Rate (%)	4.4	4.0	4.0	4.0	(Oct)
CPI	0.0	-0.3	0.9	1.1	(Oct)

South Korea	2012	13Q2	13Q3	Latest	
Real GDP	2.0	2.3	3.3		
Current Acc. Bal. (US$B, ar)	48.1	79.2	75.9	114.1	(Oct)
Merch. Trade Bal. (US$B, ar)	28.3	57.5	43.2	57.6	(Nov)
Industrial Production	1.2	-1.7	1.0	0.8	(Oct)
CPI	2.2	1.1	1.2	2.2	(Nov)

China	2012	13Q2	13Q3	Latest	
Real GDP	10.4	7.5	7.8		
Current Acc. Bal. (US$B, ar)	193.1				
Merch. Trade Bal. (US$B, ar)	230.7	263.5	246.0	405.6	(Nov)
Industrial Production	10.3	8.9	10.2	10.0	(Nov)
CPI	2.5	2.7	3.1	3.0	(Nov)

Thailand	2012	13Q2	13Q3	Latest	
Real GDP	6.5	2.9	2.7		
Current Acc. Bal. (US$B, ar)	-1.5	-6.7	-0.9		
Merch. Trade Bal. (US$B, ar)	0.5	-0.2	1.7	0.3	(Oct)
Industrial Production	2.1	-5.1	-3.9	-3.2	(Oct)
CPI	3.0	2.3	1.7	1.9	(Nov)

India	2012	13Q2	13Q3	Latest	
Real GDP	5.1	4.4	4.8		
Current Acc. Bal. (US$B, ar)	-91.5	-21.8	-5.2		
Merch. Trade Bal. (US$B, ar)	-16.0	-16.8	-10.1	-9.2	(Nov)
Industrial Production	0.7	-1.0	1.7	-1.8	(Oct)
WPI	7.5	4.8	6.6	7.5	(Nov)

Indonesia	2012	13Q2	13Q3	Latest	
Real GDP	6.2	5.8	5.6		
Current Acc. Bal. (US$B, ar)	-24.4	-10.0	-8.4		
Merch. Trade Bal. (US$B, ar)	-0.1	-1.0	-1.0	0.0	(Oct)
Industrial Production	4.1	7.1		12.4	(Aug)
CPI	4.3	5.6	8.6	8.4	(Nov)

Latin America

Brazil	2012	13Q2	13Q3	Latest	
Real GDP	0.9	3.1	1.9		
Current Acc. Bal. (US$B, ar)	-54.2	-74.2	-68.4		
Merch. Trade Bal. (US$B, ar)	19.4	8.3	5.9	20.9	(Nov)
Industrial Production	-2.7	3.3	0.3	0.8	(Oct)
CPI	5.4	6.6	6.1	11.1	(Nov)

Chile	2012	13Q2	13Q3	Latest	
Real GDP	5.6	4.0	4.7		
Current Acc. Bal. (US$B, ar)	-0.1	-6.8	-13.8		
Merch. Trade Bal. (US$B, ar)	12.4	5.4	-1.8	2.4	(Nov)
Industrial Production	2.8	1.4	4.9	2.1	(Oct)
CPI	3.0	1.3	2.1	2.4	(Nov)

Peru	2012	13Q2	13Q3	Latest	
Real GDP	9.2	5.6	4.4		
Current Acc. Bal. (US$B, ar)	-7.1	-3.1			
Merch. Trade Bal. (US$B, ar)	0.5	-0.1	0.0	-0.3	(Oct)
Unemployment Rate (%)	7.0	5.7	5.8	5.8	(Nov)
CPI	3.7	2.5	3.1	3.0	(Nov)

Colombia	2012	13Q2	13Q3	Latest	
Real GDP	4.2	3.9	5.1		
Current Acc. Bal. (US$B, ar)	-12.2	-2.7			
Merch. Trade Bal. (US$B, ar)	0.4	0.4	0.0	-0.3	(Oct)
Industrial Production	-0.4	0.0	-1.7	-0.1	(Oct)
CPI	3.2	2.1	2.3	1.8	(Nov)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	13Q2	13Q3	Dec/13	Dec/20*	United States	13Q2	13Q3	Dec/13	Dec/20*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	1.02	0.97	0.93	0.91	3-mo. T-bill	0.03	0.01	0.06	0.06
10-yr Gov't Bond	2.44	2.54	2.66	2.67	10-yr Gov't Bond	2.49	2.61	2.86	2.91
30-yr Gov't Bond	2.90	3.07	3.21	3.19	30-yr Gov't Bond	3.50	3.68	3.87	3.86
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	68.8	71.3	71.4	(Oct)	FX Reserves (US$B)	134.7	136.7	136.4	(Oct)
Germany					**France**				
3-mo. Interbank	0.14	0.15	0.22	0.26	3-mo. T-bill	0.03	0.06	0.16	0.16
10-yr Gov't Bond	1.73	1.78	1.83	1.88	10-yr Gov't Bond	2.35	2.32	2.43	2.48
FX Reserves (US$B)	66.1	65.7	65.6	(Oct)	FX Reserves (US$B)	51.4	54.6	53.2	(Oct)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.50	0.50	0.25	0.25	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.21	0.18	0.15	0.16	3-mo. T-bill	0.39	0.40	0.40	0.41
FX Reserves (US$B)	324.9	332.5	332.1	(Oct)	10-yr Gov't Bond	2.44	2.72	2.90	2.96
					FX Reserves (US$B)	90.2	93.3	93.8	(Oct)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	2.75	2.50	2.50	2.50
3-mo. Libor	0.09	0.09	0.08	0.08	10-yr Gov't Bond	3.76	3.81	4.32	4.29
10-yr Gov't Bond	0.85	0.69	0.70	0.68	FX Reserves (US$B)	45.0	45.9	50.8	(Oct)
FX Reserves (US$B)	1209.4	1240.8	1244.3	(Oct)					

Exchange Rates (end of period)

USDCAD	1.05	1.03	1.06	1.07	¥/US$	99.14	98.27	103.21	104.15
CADUSD	0.95	0.97	0.94	0.94	US¢/Australian$	0.91	0.93	0.90	0.89
GBPUSD	1.521	1.619	1.630	1.639	Chinese Yuan/US$	6.14	6.12	6.07	6.07
EURUSD	1.301	1.353	1.374	1.370	South Korean Won/US$	1142	1075	1053	1061
JPYEUR	0.78	0.75	0.70	0.70	Mexican Peso/US$	12.931	13.091	12.883	12.969
USDCHF	0.95	0.90	0.89	0.89	Brazilian Real/US$	2.232	2.217	2.330	2.380

Equity Markets (index, end of period)

United States (DJIA)	14910	15130	15755	16244	U.K. (FT100)	6215	6462	6440	6615
United States (S&P500)	1606	1682	1775	1816	Germany (Dax)	7959	8594	9006	9389
Canada (S&P/TSX)	12129	12787	13126	13475	France (CAC40)	3739	4143	4060	4186
Mexico (IPC)	40623	40185	41885	42475	Japan (Nikkei)	13677	14456	15403	15870
Brazil (Bovespa)	47457	52338	50051	51498	Hong Kong (Hang Seng)	20803	22860	23246	22812
Italy (BCI)	849	950	984	1011	South Korea (Composite)	1863	1997	1963	1983

Commodity Prices (end of period)

Pulp (US$/tonne)	950	945	990	990	Copper (US$/lb)	3.06	3.31	3.27	3.30
Newsprint (US$/tonne)	605	605	605	605	Zinc (US$/lb)	0.83	0.85	0.89	0.92
Lumber (US$/mfbm)	292	359	355	372	Gold (US$/oz)	1192.00	1326.50	1232.00	1195.25
WTI Oil (US$/bbl)	96.56	102.33	96.60	98.82	Silver (US$/oz)	18.86	21.68	19.55	19.33
Natural Gas (US$/mmbtu)	3.57	3.56	4.35	4.43	CRB (index)	275.62	285.54	279.67	282.40

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotiabank Economics.

Emerging Markets Strategy

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Foreign Exchange Strategy

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